

CHAIRMAN'S STATEMENT

Our consolidated profit attributable to shareholders for 2014 was HK\$11,069 million, HK\$2,222 million lower than in 2013. Underlying profit attributable to shareholders, which principally adjusts for changes in the valuation of investment properties, increased by HK\$1,268 million or 15% to HK\$9,739 million.

This increase in underlying profit reflects higher profits from the Property Division, the Cathay Pacific group and the Beverages and Trading & Industrial Divisions. There were lower profits from the HAECO group and the Marine Services Division.

Dividends

The Directors have declared second interim dividends of HK\$2.80 per 'A' share and HK\$0.56 per 'B' share which, together

with the first interim dividends of HK\$1.10 per 'A' share and HK\$0.22 per 'B' share paid in October 2014, amount to full year dividends of HK\$3.90 per 'A' share and HK\$0.78 per 'B' share, compared to full year dividends of HK\$3.50 per 'A' share and HK\$0.70 per 'B' share in respect of 2013. The second interim dividends will be paid on 8th May 2015 to shareholders registered at the close of business on the record date, being Friday, 17th April 2015. Shares of the Company will be traded ex-dividend from Wednesday, 15th April 2015.

The register of members will be closed on Friday, 17th April 2015, during which day no transfer of shares will be effected. In order to qualify for entitlement to the second interim dividends, all transfer forms, accompanied by the relevant share certificates, must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 16th April 2015.

The Economic Background in 2014

The global economy recorded reasonable overall growth in 2014. After a weak start to the year, the USA exhibited good growth. Rising employment benefited the economy. Economic conditions in Europe continued to be weak, although the UK did better than the Eurozone. In Asia, there was a slowdown in the growth of China's economy. Consumer spending in Hong Kong was adversely affected by central government measures in Mainland China and by Occupy Central. The oil price declined significantly in the second half of the year. This reduced fuel costs for our airlines but caused our airlines to suffer significant hedging losses and put pressure on oil and gas companies, which adversely affected our Marine Services Division.

Operating Performance

The attributable underlying profit from the Property Division increased by 15% to HK\$5,841 million. The increase in underlying profit principally reflects higher income from retail and office investment properties in Hong Kong and Mainland China and higher trading profits from the sale of luxury residential properties in Hong Kong. There were positive rental reversions at the investment property portfolio in Hong Kong and there was higher rental income from investment properties in Mainland China.

The Property Division's net investment property valuation gain in 2014, before deferred tax in Mainland China, was HK\$3,134 million, compared to a net gain in 2013 of HK\$6,946 million.

The Aviation Division recorded an attributable profit of HK\$1,822 million in 2014, compared to a profit of HK\$1,627 million in 2013.

The Cathay Pacific group contributed a profit of HK\$1,418 million, an increase of 20% compared with 2013. The first half of 2014 was affected by high fuel prices, reduced passenger yield and continued weakness and over-capacity in the air cargo market. For the full year, passenger demand was reasonably firm, with high demand during the peak summer and Christmas periods. After a prolonged period of weakness, cargo demand started to improve in the summer of 2014 and was strong in the fourth quarter. The business benefited from lower fuel prices in the final three months of the year, but this was partially offset by fuel hedging losses. Significant unrealised hedging losses also caused a reduction in the consolidated net assets of Cathay Pacific. Our share of these hedging losses (amounting to HK\$5,611 million) was reflected in our consolidated net assets.

The HAECO group's profit attributable to shareholders in 2014 was HK\$430 million, a decrease of 8% compared with 2013. The group did more airframe work than in the prior year, principally due to the acquisition of TIMCO Aviation Services, Inc. (now known, with its intermediate holding company, as HAECO Americas) in February 2014. HAECO Americas recorded a loss in 2014 due to the costs of reducing the size of a seat manufacturing facility and the financing costs associated with the acquisition. Demand for the group's line services was stable. The group overhauled fewer

engines compared with 2013, mainly due to the retirement of older aircraft types.

The Beverages Division recorded an attributable profit of HK\$854 million in 2014, an increase of 6% compared to 2013. Excluding non-recurring profits in 2013 and 2014, attributable profit was HK\$776 million, a 6% increase from 2013. This increase principally reflected lower raw material costs in all territories and modest volume growth and an improved sales mix in Mainland China. Overall sales volume increased by 3% to 1,044 million unit cases, compared with an increase of 2% in 2013. The increase was principally due to the assumption of new franchise territories in Colorado in the USA.

The Marine Services Division reported an attributable profit of HK\$1,072 million, a decrease of 18% compared to 2013. At SPO, results were adversely affected by the difficult market conditions in the second half of the year caused by the significant decline in the oil price. This put pressure on charter hire rates and utilisation (in particular for the specialist fleet).

Attributable profit from the Trading & Industrial Division in 2014 increased by 78% to HK\$423 million. The increase principally reflects higher sales volume and non-recurring profits from Taikoo Motors, higher profits from Akzo Nobel Swire Paints and reduced losses from Campbell Swire. This was partly offset by lower profits from Swire Retail and higher start-up costs from Swire Pacific Cold Storage.

Finance

The Group continues to finance itself prudently. Gearing increased by 3 percentage points to 22%. Cash and undrawn committed facilities were HK\$23,876 million at 31st December 2014, compared with HK\$30,806 million at 31st December 2013.

In 2014, we raised HK\$14,379 million of new finance. This principally comprised HK dollar, US dollar and Renminbi bank loans and the issue of three HK dollar denominated medium-term notes under the Group's medium-term note programmes.

Net debt at 31st December 2014 was HK\$58,624 million, an increase of HK\$8,119 million since 31st December 2013. The increase principally reflects investments in property projects and new vessels for SPO and investments in subsidiary and joint venture companies.

Economic Outlook

Prospects for the US economy are good as rising employment should result in further growth in consumption. If sustained, the lower oil price should also benefit the US economy. Economic growth in Europe is expected to continue to be weak. The outlook for the Asian region is reasonably good. The growth of the Mainland China economy has been slowing for some time, but is expected to remain robust by international standards. This will continue to benefit Hong Kong. The principal uncertainty facing developing markets is the timing and effect of interest rate rises in the USA.

Sustainable Development

Sustainable development continues to be a key strategic objective of the Group. It helps to create long-term value for shareholders by safeguarding natural resources, supporting the communities in which we operate, concentrating on health and safety and on our staff and their well-being (and that of others with whom we engage) and encouraging our suppliers to maintain sustainability standards similar to our own.

For further information on sustainability, see the sections of this report dealing specifically with sustainability matters.

Prospects

Demand for office space in Hong Kong is likely to remain subdued. Rents in the Central district of Hong Kong will remain under pressure. Pacific Place, however, has no major leases expiring in 2015. At Taikoo Place and Cityplaza, rents are expected to remain resilient owing to high occupancy. In Beijing and Guangzhou, office rents are expected to be under pressure as a substantial supply of new space becomes available.

Demand for luxury goods in Hong Kong has weakened, but overall retail sales in Hong Kong are expected to grow modestly in 2015. Demand for retail space at prime locations is expected to remain high. In Guangzhou and Beijing, demand for luxury goods has weakened but that for mid-price products is expected to grow satisfactorily. In Chengdu, the retail market is expected to grow steadily in 2015.

In Hong Kong, there is demand for luxury residential properties but there are not many transactions. Profits from property trading are still expected to be significant in 2015, with the completion of the sale of units at pre-sold and completed residential developments in Hong Kong and the completion of the sale of the pre-sold office tower at the Daci Temple project in Mainland China.

The improvement in the business of the Cathay Pacific group in 2014 has continued in the first quarter of this year and we are positive about the overall prospects for 2015. Demand in the cargo business continues to improve and is currently being helped by the congestion in sea ports on the West Coast of the United States. Our airlines continue to benefit from the lower net fuel price. The associated companies of Cathay Pacific are also benefiting from these positive factors. While there is growing competition in the passenger business, which makes it harder to maintain yield, overall demand remains strong and the outlook is positive. The Cathay Pacific group's financial position remains strong, which will enable it to continue its long-term strategic investment in the business and its commitment to reinforcing Hong Kong's position as one of the world's premier aviation hubs.

HAECO Hong Kong's airframe services capacity in 2015 is expected to increase as the training of new recruits progresses. Demand for HAECO Americas' airframe services is expected to weaken. Demand for Taikoo (Xiamen) Aircraft Engineering Company Limited ("HAECO Xiamen")'s airframe services is expected to improve.

The engine overhaul business is expected to continue to be adversely affected by the retirement of older engine types.

Swire Beverages' results in 2015 are likely to be better than those in 2014 due to the inclusion of full-year results from the franchise territories in the USA assumed in 2014. In Mainland China, sales volume growth is expected, but rising staff costs are likely to put pressure on margins. The outlook for the Hong Kong business is good due to its established market position. The USA is expected to benefit from the assumption of the new franchise territories and from sales volume growth in the existing territories.

The offshore oil and gas industry is suffering from a low oil price and consequent pressure on the exploration and production budgets of oil companies. In the short term, the low oil price is expected to reduce exploration activities, which is likely to affect SPO's results adversely. However, SPO has confidence in the industry's long-term prospects. Past trends indicate that oil prices do not stay low indefinitely and that a recovery in the oil price is followed by a recovery in exploration.

Results from the Trading & Industrial Division are likely to be lower than in 2014, principally due to the absence of significant non-recurring profits from Taikoo Motors. The division will continue to be affected by the cost of new business development.

We believe that our strategy of seeking sustainable growth in shareholder value

over the long-term in a broad range of businesses will continue to be successful.

The commitment and hard work of employees of the Group and its joint venture and associated companies are central to our continuing success. I take this opportunity to thank them.

John Slosar

Chairman

Hong Kong, 19th March 2015